

Farm Credit Administration

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which financial presentations are evaluated.

(d) *Generally accepted auditing standards* means the standards and guidelines that are generally accepted in the United States of America and that are adopted by the authoritative body that governs the overall quality of audit performance.

(e) *Institution* means any bank, association, or service corporation chartered under the Act; the Federal Farm Credit Banks Funding Corporation, and where specifically noted, the Federal Agricultural Mortgage Corporation.

(f) *Loan* means any extension of credit or lease that is recorded as an asset of a reporting institution, whether made directly or purchased from another lender. The term “loan” includes, but is not limited to:

(1) Loans originated through direct negotiations between the reporting institution and a borrower;

(2) Purchased loans or interests in loans, including participation interests, retained subordinated participation interests in loans sold, and interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in loans sold;

(3) Contracts of sale; notes receivable; and

(4) Other similar obligations and lease financing.

(g) *Material* means the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

(h) *Net realizable value* means the net amount the lender would expect to be realized from the acquisition and subsequent sale or disposition of a loan's underlying collateral. Generally, net realizable value is equal to the estimated selling price in the ordinary course of business, less estimated costs of acquisition, completion, and disposal.

(i) *Recorded investment* means the face amount of the loan increased or decreased by applicable accrued interest and unamortized premium, discount, fi-

nance charges, or acquisition costs, and may also reflect a previous direct write-down of the investment.

[58 FR 48786, Sept. 20, 1993, as amended at 71 FR 76120, Dec. 20, 2006; 74 FR 28600, June 17, 2009; 78 FR 31835, May 28, 2013]

EFFECTIVE DATE NOTE: At 78 FR 77562, Dec. 24, 2013, § 621.2 was amended by redesignating paragraph (a) as paragraph (b), paragraph (b) as paragraph (d), and paragraphs (c) through (i) as paragraphs (f) through (l), respectively; and adding new paragraphs (a), (c), (e), (m) and (n), effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session. For the convenience of the user, the added text is set forth as follows:

§ 621.2 Definitions.

(a) *Accounts and exposures* means data related to any loan, lease, letter of credit, derivative, or, any other asset, liability, other balance sheet account, or off-balance-sheet exposure of a System institution.

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(c) *Banks and associations* mean all Farm Credit Banks, Agricultural credit banks, and associations.

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(e) *Central data repository* means a central data warehouse that electronically collects and stores current and historical data and is created by integrating data from one or more disparate sources.

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(m) *Reporting entity* means the Federal Farm Credit Banks Funding Corporation, or other entity approved by the Farm Credit Administration.

(n) *Shared asset* means any account or exposure where two or more Farm Credit institutions have assumed a portion of the asset's benefits or risks. An institution's share in the asset may be established through means such as syndications, participation agreements, assignments, or other arrangements with System entities.

Subpart B—General Rules

§ 621.3 Application of generally accepted accounting principles.

Each institution shall:

(a) Prepare and maintain, on an accrual basis, accurate and complete records of its business transactions as necessary to prepare financial statements and reports, including reports to

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the Farm Credit Administration, in accordance with generally accepted accounting principles, except as otherwise directed by statutory and regulatory requirements;

(b) Prepare its financial statements and reports, including reports to the shareholders, investors, boards of directors, institution management and the Farm Credit Administration, in accordance with generally accepted accounting principles, except as otherwise directed by statutory and regulatory requirements; and

(c) Prepare and maintain its books and records in such a manner as to facilitate reconciliation with financial statements and reports prepared from them.

§ 621.4 Audit by qualified public accountant.

(a) Each institution shall, at least annually, have its financial statements audited by a qualified public accountant in accordance with generally accepted auditing standards.

(b) The qualified public accountant's opinion of each institution's financial statements must be included as a part of each annual report to shareholders. The accountant must comply with the auditor independence provisions of subpart E of this part.

(c) If an institution disagrees with the opinion of a qualified public accountant required by paragraph (b) of this section, the following actions shall be taken immediately:

(1) The institution shall prepare a brief but thorough written description of the scope and content of the disagreement, noting each point of disagreement and citing, in all cases, the specific provisions of generally accepted accounting principles and generally accepted auditing standards upon which the institution's position in the disagreement is based;

(2) A copy of the institution's final description of the disagreement shall be given to the accountant who provided the opinion with which the institution disagrees;

(3) The accountant shall have 10 business days to develop and provide a brief but thorough final response to the institution's description of the disagreement, including all items believed to

be incorrect or incomplete, and citing, in all cases, the specific provisions of generally accepted accounting principles and generally accepted auditing standards upon which the accountant's position in the disagreement is based;

(4) Both the institution's final description of the disagreement and the accountant's final response to it shall be included in the institution's annual report to shareholders directly following the accountant's opinion of the institution's financial statements; and

(5) The institution shall immediately notify the Chief Examiner, Farm Credit Administration, of any disagreement with its accountant and shall furnish the Farm Credit Administration with the written documentation required by paragraphs (c) (1) through (4) of this section.

(d) If an institution selects a qualified public accountant to audit its financial statements and provide an opinion thereon for its annual report who is different from the accountant whose opinion appeared in the institution's most recent annual report, the following items shall be sent to the Farm Credit Administration no later than 15 days after the end of the month in which the change took place and shall be included in the institution's annual meeting information statement and annual report to shareholders for the year in which the change of accountants took place:

(1) The name and address of the accountant whose opinion appeared in the institution's most recent annual report to shareholders;

(2) A brief but thorough statement of the reasons the accountant selected for the most recent annual report was not selected for the current annual report. If the change resulted from a disagreement with the accountant, the statement shall describe the institution's disagreement with the accountant's opinion and the accountant's final response to the institution's disagreement prepared pursuant to paragraph (c) of this section; and

(3) The identification of the highest ranking officer, committee of officers, or board of directors, as appropriate,